

AR10

Filled



We are not presenting a source and application of funds as it would not be meaningful.

KELLY-DEYONG SOUND CORPORATION LTD.

REPORT TO THE SHAREHOLDERS

FOR THE SIX MONTHS ENDED
AUGUST 31, 1969

REPORT TO THE SHAREHOLDERS
for the six months ended August 31, 1969

This statement is the first opportunity we have had to welcome the new shareholders to Kelly-Deyong Sound Corporation Ltd. We know that the expansion and operations of the first six months will be as gratifying to the shareholders as it is to management, considering the Company received the proceeds of the underwriting only two weeks prior to the date of the statements.

Acquisitions

The Company made two acquisitions in the last six months and purchased a prime downtown retail location in Vancouver. The first acquisition was Claude Crocker's Music Centre Limited of New Westminster, British Columbia. Claude Crocker's operates the largest and most complete musical instrument store in Western Canada. The Claude Crocker's acquisition signifies your Company's intention to offer its customers complete musical services.

On August 31, 1969, the Company acquired Trio Merchandisers Limited of Edmonton, Alberta. Trio operated record stores in three major shopping centres in Edmonton as well as an excellent downtown Regina location. These stores have now been completely remodelled and offer complete stereo services as well as records. Plans have also been completed to open a store in the Woodward-Bay new Southgate shopping plaza which opens in early fall 1970. The accompanying statement of income does not include the results of Trio's operations to August 31, 1969

Your Company is now operating in the three western provinces of Saskatchewan, Alberta and British Columbia. In our new downtown Vancouver location we are presently only merchandising records and tapes. At the expiration of an existing lease early next year we will be able to expand and capture a large share of the downtown stereo component market.

Operations

The Company's combined sales for the six months ended August 31, 1969 were \$1,592,451, which does not include Trio Merchandisers Limited but does include Claude Crocker's Music Centre Limited only since the date of acquisition, May 1, 1969. It is not possible to provide comparative figures for 1968 due to the accounting methods of predecessor companies. However, historically the first six months of operations represents approximately 38% of the Company's sales volume.

Much of the last six months has been spent remodelling existing Kelly stores to enable the sale of audio equipment as well as records out of each location. Additional staff has been under training in this period to staff the stores for the heavy fall selling period. Consequently, higher than normal operating costs have been incurred in the first six months to enable the company to make its expansion successful by having up-to-date and well staffed stores. An Edmonton warehouse has also been opened to allow the expansion of franchising in Alberta and Saskatchewan.

The net operating profit of the Company after depreciation and income tax for the six month period was \$52,072.

Conclusion

The Company has had a successful six months integrating the operations of both the Kelly record and Deyong audio stores, of remodelling existing record stores to allow the sale of audio components and of acquiring two compatible companies in Claude Crocker's Music Centre Limited and Trio Merchandisers Limited. The next six months will mainly be spent expanding the franchising operations and handling the heavy fall volume that is traditional in the Company's business.

KELLY-DEYONG SOUND CORPORATION LTD.
STATEMENT OF INCOME

For the six months ended August 31, 1969

Gross Sales	\$1,592,451
Cost of Sales	<u>1,079,763</u>
Gross Profit	<u>\$ 512,688</u>
Expenses:	
Operating, selling and administration	384,787
Rent	36,427
Interest	18,057
Depreciation and amortization	<u>8,845</u>
Total expenses	<u>\$ 448,116</u>
Income before Income Taxes	64,572
Provision for Income Taxes	<u>12,500</u>
Net income for the Period	<u>\$ 52,072</u>